

Sample Exam 1 Answers

1. c
2. b
3. a
4. c
5. c
6. c
7. False. Consumer spending will increase no matter what the elasticity is. Under the price ceiling quantity supplied is artificially low. When the price ceiling is lifted, the quantity supplied will rise to meet quantity demanded at the equilibrium price. The combination of higher price and higher quantity will lead to increased spending no matter what the elasticity.
8. No shortage will result if the market price is allowed to rise as a consequence of the reduced supply. The equilibrium quantity of turkeys bought and sold will fall--but that is not what we mean by a shortage. A shortage will only happen if the price of turkeys does not rise (in which case the quantity supplied will be lower than the quantity demanded).
9. A doubling of prison sentences raises the "price" of committing crimes. Thus, we would expect criminals to commit fewer crimes.
10. Only a change in the price of the good itself will cause movement along the demand curve (this is called a change in quantity demanded). A change in demand (ie, shift in the entire curve) is caused by changes in income, price of related goods, number of buyers, etc.
11. The demand for M&Ms must have increased.
12. Microecon texts.
 - a) $P = \$190$; $Q = 60$
 - b) $CS = \$1800$; $PS = \$5400$; $Gain = \$7200$
 - c) $P = 191.25$; $Q = 58.75$
 - d) $CS = \$1725.8$; $PS = \$5177.3$; $Tax = 293.75$; $Gain = \$7196.9$; $DWL = \$3.12$
13. Depends on the elasticity of supply and demand for jelly beans. If the supply and demand elasticities are very high (so that the curves are very flat), then the cost of the program is likely to be high. If the elasticities are low, then the cost will be fairly low.
- 14.
- 15.
- 16.